

Message Text

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ACTION EB-11

INFO OCT-01 ARA-11 EUR-25 ADP-00 SS-14 L-03 NSC-10 INT-08

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R 101712 Z MAR 73
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 646
INFO AMEMBASSY CARACAS
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E. O. 11652: N/A

TAGS: ENRG, ETRD, ETRN, CA

SUBJECT: PETROLEUM: MACDONALD REFERS TO BILATERAL TALKS

REF: OTTAWA 562

BEGIN SUMMARY: IN TESTIMONY MARCH 8 BEFORE HOUSE OF COMMONS NATIONAL RESOURCES COMMITTEE, MINISTER ENERGY, MINES AND RESOURCES MACDONALD REFERRED TO CONTINUING TALKS WITH USG AND WITHIN OECD WITH VIEW TO EMERGENCY OIL EXCHANGE ARRANGEMENTS. IN RESPECT BILATERAL ARRANGEMENTS, HE CITED AREAS OF DISAGREEMENT INCLUDING ALLEGED USG DESIRE FOR ASSURANCES (A) ON CONTINUITY OF GOC OIL POLICIES AND (B) THAT CANADA WOULD DELIVER " MULTIPLE " OF INCREASED US SHIPMENTS IN EMERGENCY. OPPOSITION CONTINUED TO EXPRESS CONCERN FOR SECURITY OF OIL SUPPLY FOR EASTERN CANADA. END SUMMARY

1. IN REPLY TO QUESTIONS FROM PROGRESSIVE- CONSERVATIVE ENERGY CRITIC HAMILTON (SASKATCHEWAN) ABOUT SECURITY OF OIL SUPPLY FOR EASTERN CANADA, MACDONALD SAID GOC SEEKING LIMITED OFFICIAL USE

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SECURE SITUATION VIA OECD AND DISCUSSIONS WITH USG BUT NOT PREPARED TO PAY SOME HEAVY COSTS THAT HAD BEEN SUGGESTED. FOR EXAMPLE, HE SAID, IN REGARD TO WESTERN PIPELINE USG HAD SUGGESTED CANADA MAINTAIN SUBSTANTIAL EXCESS CAPACITY AT ALL TIMES.

2. ANOTHER AREA OF DISAGREEMENT, HE SAID, WAS SUGGESTION THAT IF USG ENTERED INTO AGREEMENT TO SUPPLY FIXED ADDITIONAL AMOUNT FOR EASTERN CANADA, SOME " MULTIPLE" OF THAT AMOUNT SHOULD BE SUPPLIED BY CANADIAN PIPELINE IN WEST. FURTHER, MACDONALD SAID, WAS SUGGESTION GOC SHOULD ENTER INTO FIRM UNDERTAKINGS ON WHAT FUTURE NATIONAL OIL POLICY WAS GOING TO BE. GOC FOUND THIS UNACCEPTABLE, BELIEVING THIS WAS MATTER CANADIANS THEMSELVES SHOULD DETERMINE.

3. MACDONALD SAID GOC AND US OFFICIALS WOULD BE MEETING AGAIN WITHIN SEVERAL WEEKS TO CONTINUE DISCUSSIONS AND HE THOUGHT THAT, WITH CHANGE OF INTERNATIONAL EVENTS, POSITIONS HAD COME BIT CLOSER. HOWEVER, HE SAID, GOC HAD NOT ACHIEVED WHAT IS ULTIMATELY NECESSARY, AGREEMENT MULTILATERALLY (OECD AGREEMENT) OR BILATERALLY WITH USG.

4. FORMER NEW DEMOCRATIC PARTY (NDP) LEADER DOUGLAS QUESTIONED WHY US SHOULD EXPECT INCREASED CANADIAN DELIVERIES IN EMERGENCY SITUATION TO BE ANY MULTIPLE OF US DELIVERIES RATHER THAN " BALANCED DEAL". MACDONALD SUPPOSED USG POINT OF DEPARTURE WAS RELATIVE ABILITY TO DELIVER AND HISTORICAL EXPERIENCE. HE ADDED LACK OF AGREEMENT ON THIS POINT WAS ONE REASON NO AGREEMENT HAD YET BEEN CONCLUDED WITH USG.

5. IN REPLY TO HAMILTON' S QUESTION ABOUT ALTERNATIVE APPROACHES TO SECURITY IF AGREEMENT NOT REACHED WITH USG, MACDONALD SUGGESTED GOC SHARED OECD VIEW THAT SPECIAL BILATERAL ARRANGEMENT, FOR INSTANCE WITH VENEZUELA OR NIGERIA, WOULD NOT SERVE CONSUMER INTERESTS. HOWLAND, (CHAIRMAN, NATIONAL ENERGY BOARD) EXPRESSED DESIRE AVOID " CONFUSION AND COMPETITIVE BIDDING" FOR OIL, NOTED GOC WORKING WITH USG ON SHARING FORMULA WITHIN OECD.

6. MACDONALD CONTINUED TO EXPRESS STRONG SKEPTICISM (TO HAMILTON AND FORMER NDP LEADER DOUGLAS) REGARDING DESIRABILITY OF PIPELINE EXTENSION TO MONTREAL, SAYING USG
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NOT NOW PRESSING GOC ON THIS SECURITY OPTION. HE ADDED THAT ANOTHER POSSIBLE SECURITY MOVE RELATED TO ASHLAND/ NEPCO PROPOSAL FOR ST. LAWRENCE DEEP WATER PORT AND PIPELINE TO OSWEGO AND BUFFALO, NEW YORK. TO BE BUILT AT US EXPENSE, THIS PIPELINE WOULD IN EMERGENCY AFFORD POSSIBILITY OF REVERSE FLOW FROM BUFFALO, WHERE IT WOULD BE LINKED TO INTERPROVINCIAL PIPELINE SYSTEM. (STABBACK OF NATIONAL ENERGY BOARD ADDED THAT ACTUAL WORK TO EXTEND INTERPROVINCIAL EXTENSION TO MONTREAL COULD BE DONE IN ONE SEASON IF PIPE AVAILABLE.)

7 MACDONALD SAID NEB WAS PREPARING RECOMMENDATIONS TO CABINET ON OIL STORAGE. NEB CHAIRMAN HOWLAND OUTLINED GOC STUDY AND ASSUMPTIONS REGARDING DISRUPTION IN OVERSEAS SUPPLY, DISCUSSED PRESENT STORAGE LEVELS AND OECD STANDARD.

8. PRESSED BY NEW DEMOCRATS AND LIBERAL BACKBENCHER MCCRAE, HOWLAND REFUSED TO PREJUDGE DESIRED RESERVE PRODUCTION RATIO FOR OIL, STRESSING THAT INDUSTRY INVESTMENT IN TAR SANDS AND PROVING UP OF FURTHER RESERVES IN ALBERTA AND NORTH COULD BE EXPECTED TO LEAD TO APPROVAL OF FURTHER EXPORTS.

9. HOWLAND AGAIN SUGGESTED BOARD TAKES FAVORABLE VIEW OF INTERPROVINCIAL APPLICATION FOR ADDITIONAL 125,000 B/ D CAPACITY BASED ON DOMESTIC NEEDS AND DESIRE FOR PRUDENT SPARE CAPACITY, PROMISED EXPEDITIOUS HANDLING OF CASE FOR WHICH HEARINGS OPEN MARCH 13.

10. COMMENT: DEPUTY MINISTER AUSTIN INVITED OUR ATTENTION TO MACDONALD' S IMPROMPTU REMARKS ON OIL TALKS WHICH HE HOPED WOULD CREATE NO PROBLEMS FOR USG. NATIONAL ENERGY BOARD CHAIRMAN HOWLAND ALSO SUGGESTED OUR NOT ATTRIBUTING TOO MUCH IMPORTANCE TO MACDONALD' S REMARKS, POINTING OUT HE HAD YET TO BRIEF MINISTER ON MARCH 6 TALKS. IN RESPECT TO ASHLAND/ NEPCO PROJECT, AUSTIN SAID IN RECENT TALKS WITH COMPANY OFFICIALS GOC STILL NON- COMMITTAL, MAINLY BECAUSE OF CONTINUING ENVIRONMENTAL QUESTIONS.
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